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SUBJECT: Baghlan Industry and Energy Sector Poised For Expansion

¶1. (SBU) Summary: Baghlan Province is well positioned to take advantage of its energy production and industrial potential, though some of its business leaders seem overly ambitious. With its intact hydropower plants and location along one of Afghanistan's primary electrical backbones, Baghlan almost has the energy it needs to both power its capital city, Pul-i-Khumri, and its myriad of industrial enterprises. Though Baghlan's dominant business conglomerate, Afghan Investment Company, operates at a loss, it plans to construct new cement plants and a large coal burning power plant within the next few years. It remains unclear if Baghlan's coal mines have the infrastructure or the coal to keep up. End Summary

Baghlan Hydropower - Still Working But Not Enough

¶2. (SBU) Pul-i-Khumri has two hydropower energy plants which harness the energy of the Kunduz River. The first plant (PK-1) was built in the 1941 has three turbines, each with 1.6 MW capacity. In the early 1960s, a 5.5 kilometer canal was dug connecting PK-1 to a new plant with still greater capacity. Because the twenty meter wide and four meter deep canal has never been cleaned or dredged, water often backs up, causing the pressure at PK-1 to drop. Because of this (as well as use of primarily original equipment), despite its 4.8 MW capacity, PK-1 is only able to produce a maximum of 2.1 MW of energy, all of which is distributed to Pul-i-Khumri city residents. Pul-i-Khumri's second plant (PK-2) also has three turbines with a total capacity of 9 MW. From November through April, there is not enough water to run all of the turbines, though the plant manages to generate a minimum of 3 MW, enough to feed the energy needs of Baghlan's four coal mines and the Baghlan Cement Factory. Any power generated above this 3 MW minimum is distributed to Pul-i-Khumri's general power grid. From May to October, the three turbines generally run 24 hours a day, meaning a surplus 6 MW are distributed to the public. As a component of USAID's Renewable Energy Project, the U.S. Army Corps of Engineers is working jointly with USAID to restore and develop hydroelectric resources in Pul-i-Khumri through rehabilitation projects projects on both plants. Technical assessments were completed in April 2008 and it is expected that the contract will be awarded in November or December 2009. Once work begins, it is expected to take 12 - 16 months to complete the project.

Imported Energy From Uzbekistan Makes An Impact

¶3. (SBU) On June 8, Water and Energy Minister Ismael Khan inaugurated a new 220-Kw substation near the Pul-i-Khumri. The substation feeds off the new Heyraton-Kabul energy backbone, which currently carries up to 150 MW of power imported from Uzbekistan. Baghlan has placed a new transformer at the substation to siphon off up to 16 MW of this energy. According to local Water and Energy Department head Haidar Sidiqi, Kabul has agreed to allow Baghlan access to up to 32 MW, though it has not yet funded a second 16 MW

transformer. Of this 16 MW, 1 MW is now being pushed north along newly laid power lines to Fabrika and Baghlan-i-Jadid, 6 MW are for public consumption and 9 MW are destined to power the newly built second cement factory.

How Much Power Does Pul-i-Khumri Need?

¶4. (SBU) At any given time, the city is subject to rolling brown outs, particularly from January through March when the water level in the canal remains low. According to the Chief of Baghlan's Department of Energy, Pul-i-Khumri is wired to distribute electricity in a radius of 15 kilometers around the city center. In order to keep the city lit for 24 hours a day, the system requires around 13 MW of power. The Department of Energy is now expanding the network of power lines out to Fabrika, home of Baghlan's sugar and cheese factories, and Baghlan-i-Jadid. This extended network would need 30 MW to remain fully charged. With the Uzbek electricity now on line, the cement factories and mines are slated to receive a steady 12 KW, while the general population will receive anywhere from 8 to 14 MW of power, depending upon the season.

Baghlan Cement Factory

¶5. (SBU) The Baghlan Cement Factory dominates Pul-i-Khumri, from its chimneyed skyline to its privileged access to energy. The Afghan Investment Company (AIC) was organized in 2007 to purchase and run the cement factory (Afghan Cement LLC), the nearby coal mines and the city hospital. In addition to private investors, both Kabul Bank and the NAF Group are corporate sponsors of AIC. The first cement factory, Ghori 1, named after its location within Pul-i-Khumri city, was built in the early 1960s and currently has the capacity of producing up to 400 MT of "wet process" portland cement per day. Begun in 2007, a second wet process portland cement factory (Ghori 2) is now 92 percent complete and is slated to begin production later this year. Once Ghori 2 goes on-line, both facilities together will be able to produce up to 1400 MT of portland cement per day. Furthermore, according to Abdul Karim Farokh, Afghan Cement General Manager, and Abdul Hadi, AIC Controller, a third facility (Ghori 3) able to produce 4000 MT of "dry process" cement per day will soon break ground and is planned to be completed in two years. The factory's high quality cement has been used to build Baghlan's University of Agriculture building and Ghori 2's chimneys.

All This Cement, But No Buyers

¶6. (SBU) Although once Baghlan's major export item, today the cement factory has trouble unloading its product. Farokh and Hadi lay the blame on stiff competition and unfair business practices by the Pakistani cement industry. First, they argue Pakistan dumps its dry cement. Pakistani "Fuji" brand cement sells for $74/MT in Pakistan, while in Afghanistan it goes for $60/MT, priced low enough to drive AIC out of the market. AIC's manufacturing cost is $80/MT, but they sell it for $70/MTin order to maintain market share. In addition, Pakistan deliberately spreads disinformation about their "wet process" cement, saying that the longer curing period (28 days versus 14 days for dry cement) is a sign of poor quality. Finally, they allege, Pakistani manufacturers bribe their way into project contracts, which often will specify Pakistani brands of concrete to use. Although President Karzai encourages GIRoA and Afghan businesses to "buy Afghan," they have only been able to convince Baghlan Governor Barakzai to commit to using AIC cement on development projects. Despite the millions of metric tons of cement sold in Afghanistan, they lament, AIC cannot unload its modest 400 MT per day. Pakistan meddling has also gone beyond the price wars, they contend. The final stage of Ghori 2's construction is the installation of 175 containers full of Indian made equipment. Although they originally tried shipping this equipment through Pakistan, bureaucratic snarls and fears of sabotage forced them to route the containers through Iran and Turkmenistan, at much greater expense.

The Karkar Coal Mines

¶7. (SBU) Simultaneous with its construction of the Ghori 3 dry cement plant, AIC plans to build a coal burning power plant capable of producing 32 MW of electricity. The success of this project depends upon the smooth functioning of the AIC's coal mines, located just outside of Pul-i-Khumri. The four functioning mines, at Dudkash, Karkar, Ohandara and Khordara, were all privatized two years ago with a 50 year lease granted to AIC. AIC pays out $25 thousand per month to the Ministry of Mines and Industry to rent the mine facilities and an additional $53 thousand per year to lease the land. Three of the mines are currently in operation, employing some 406 employees and producing between 170 and 180 MT of coal per day. Miners are paid 4000 Afghanis per month and receive housing and hospital care. Karkar and Dudkash coal is dark grey with a calorie range of around 5500, while Ohandara and Khordara produce a crystalline coal with a calorie range of 6000 to 6500. The mines themselves pull power from PK-2 to run its electrical and exhaust systems. The Ghori 1 cement plant consumes 70 MT per day and Ghori 2 will need around 400 MT to fully function when it comes on line before the end of the year. With Ghori 3 and the power plant in the planning stages, the mines will need to produce up to 2000 MT per day in order to meet AIC's ambitious demand. Engineer Munir hopes to have production up to 600 MT per day by the end of the year.

How To Meet Demand?

¶8. (SBU) Exactly how the mines will keep up with demand is unclear. Engineer Munir admitted the miners continue to excavate by hand, though AIC's management has apparently promised $7.3 million in new excavation equipment from India. Run as an independent company, AIC's coal operation sells its product directly from the mine to both the cement factory at a special rate of 1900 Afghanis per MT and to private brokers for 2500 per MT. The coal costs approximately 2300 Afghanis per MT to extract and since its largest customer pays well below cost, the mines have yet to turn a profit. In order to meet its 600 MT per day goal, the mines will need to install the promised equipment from India and employ up to 1500 extra workers, explains Munir. The Karkar mine has a lot of methane gas and has suffered two major accidents in its 70 year history; the first, 55 years ago killed forty. A second explosion 28 years ago left 125 dead. As it is, the mines are primitive, using what little 1930s technology that remains after years of looting. During a visit to Karkar, PRTOff observed several miners struggling to keep a carload of coal on its tracks while pushing it up and out of the primary shaft. An additional problem is that nobody is really sure exactly how much coal there is in the Baghlan. Engineer Munir admits as much, noting that a fully professional assessment needs to be conducted. When confronted directly with this question, AIC officials Farokh and Hadi disagreed with each other. When Hadi expressed some doubt as to whether the current mines had enough coal to provide a steady supply, Farokh interrupted, assuring the PRTOff that unnamed experts believe Baghlan's coal vein runs well into Bamyan province.

Comment

¶9. (SBU) Despite its apparent setbacks, and inability to generate a profit, AIC seems poised to forge ahead with its ambitious plans. Clearly, a full survey of Baghlan's coal fields needs to be conducted before moving ahead with its coal burning power plant. However, Baghlan's ability to tap its hydro, coal and imported energy power places it far ahead of other provinces in the Northeast who either depend on unsteady, expensive energy from Tajikistan or generators. This steady supply of power will undoubtedly prove attractive to future investors willing to take a chance on Afghanistan's future.

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